

**DIVISION OF HEALTH PLANNING AND
RESOURCE DEVELOPMENT
NOVEMBER 2005**

**CON REVIEW: HG-MOB-0905-033
RILEY HOSPITAL-MERIDIAN
CONSTRUCTION OF MEDICAL OFFICE BUILDING
CAPITAL EXPENDITURE: \$11,500,900
LOCATION: MERIDIAN, LAUDERDALE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Application Information

Riley Hospital was founded in 1930 by Dr. Franklin Gail Riley as a ten-bed facility specializing in pediatric care. Today, Riley Hospital is a for-profit, 120-bed, acute care hospital operated by Health Management Associates, Inc. Riley Hospital also operates a 20-bed certified medical rehabilitation unit within the hospital. The application contains a letter of good standing from the Mississippi Secretary of State.

Riley Hospital's occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the past three fiscal years are as follows (medical/surgical beds only):

Riley Hospital Utilization Data			
<u>Year</u>	<u>Occupancy Rate (%)</u>	<u>ALOS (Days)</u>	<u>Medicaid Utilization Rate (%)</u>
2002	35.17	4.78	15.86
2003	46.78	4.56	18.06
2004	43.51	4.84	24.28

Source: The Division of Health Facility Licensure and Certification, MDH

B. Project Description

Riley Hospital seeks Certificate of Need (CON) authority to construct a three-story medical office building adjacent to the existing hospital. The project requires 68,020 square feet of new construction.

The proposed project will be developed by MedCapital Group and will include space for lease by physicians who seek office space located on the hospital grounds. The Haskell Company will be the project contractor. According to the applicant, various physicians and physician groups have demonstrated an interest in leasing space in the new facility. The overall space needs of these physicians total at least 68,020 square feet. The project is expected to be ready for occupancy by mid-year 2006.

II. TYPE OF REVIEW REQUIRED

The Mississippi Department of Health will review applications for a CON by a health care facility for a project for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-191 (1) (j) Mississippi Code of 1972, as amended and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi Department of Health.

In accordance with Section 41-7-197 (2) of the Mississippi Code of 1972 Annotated, as amended, any person may request a public hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires on December 5, 2005.

III. CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

A. State Health Plan (SHP)

The FY 2006 *State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000. This application is in substantial compliance with these criteria.

SHP Criterion 1 -- Need:

Riley Hospital seeks CON authority to construct a medical office building. No new institutional health services or additional licensed beds are proposed as a part of this project. The project is in accord with the hospital's long range plan.

SHP Criterion 3 – Charity/Indigent Care

The applicant affirms that a reasonable amount of charity/indigent care will be provided.

SHP Criterion 4 – Reasonable Cost

The construction cost per square foot for this project is \$169.08. **RS Means Building Construction Cost Data, 2005** suggest that the cost for medical offices should range from \$89.00 to \$135.00 per square foot.

Other recent medical office building project costs approved by the Mississippi Department of Health include \$173.72 for River Oaks Hospital, Flowood (HG-CB-1202-077); and \$175.25 for Jeff Anderson Regional Medical Center, Meridian, (HG-RC-0604-027).

SHP Criterion 5 – Floor Area Specifics

The capacity of the medical office building will be 68,020 square feet. The proposed project will be consistent with state and national norms, according to the applicant.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, May 13, 2000, (as amended) addresses general criteria by which all CON applications are reviewed. The applicable criteria are as follows:

GR Criterion 2 – Long Range Plan

According to the applicant, the proposed project is the result of the identification of long-range goals for Riley Hospital and the community it serves. The applicant asserts that the proposed construction of a medical office building will allow Riley Hospital to enhance the continuity of care and services provided to its patients.

GR Criterion 3 – Availability of Alternatives

According to the applicant, the project, as proposed, is the most efficient and cost-effective method of providing for the future delivery of health care services to the patient community served by Riley Hospital. No other alternatives were discussed in the application.

GR Criterion 4 -- Economic Viability

Based on the applicant's three-year projections, this project will be economically viable. The projected net income will be \$105,948, \$113,347, and \$121,207 for years one, two, and three, respectively.

The application contained a memorandum from MedCapital Group, the project developer for the proposed new medical office building, stating that in performing their financial feasibility study, they reviewed the following:

- Financial statements of the parent company,
- Market need for this facility,
- Other options for medical office space on the campus of the hospital, and
- Possibilities and projections for growth in healthcare need of the local market.

Based upon review of these factors MedCapital Group found that the obligor and guarantor of the rent payments can be reasonably expected to make these payments on a timely basis.

GR Criterion 5 – Need for the Project

The applicant affirms that Riley Hospital will be accessible to all residents of the service area, including all low income persons, racial and ethnic minorities, elderly women, handicapped persons or any other underserved groups in the provision of its services.

The applicant anticipates no adverse impact or effect on any existing facilities or services as a result of the proposed medical office building construction. This proposal does not involve new institutional health services or additional licensed beds.

The application contained letters from six local physicians supporting the construction of a medical office building on the campus of Riley Hospital. No letters of opposition were received.

GR Criterion 6 – Access to Medical Office Building

According to the applicant, Riley Hospital does not discriminate against the poor, the handicapped, women, the elderly, or members of racial and ethnic minorities. The facility has no obligations under any federal regulations regarding provision of uncompensated care, community services, or access by minority/handicapped persons. Riley Hospital serves Medicare, Medicaid, and medically indigent patients.

GR Criterion 7 – Information Requirement

The applicant states that it will record and maintain the requested information stated in the above criterion and make it available to the Mississippi Department of Health within 15 working days of request.

GR Criterion 8 – Relationship to Existing Health Care System

As this project involves the construction of a medical office building with no increase in licensed acute care beds of the scope of services offered by Riley Hospital, the applicant expects no adverse impact on any existing health care system.

GR Criterion 9 – Availability of Resources

Riley Hospital has documented the health, management, and financial resources necessary to implement this project. The applicant affirms the availability of resources (including medical staff, health personnel, management personnel, and funds for capital and operating needs) to pursue this project.

GR Criterion 10 – Relationship to Ancillary or Support Services

As this project involves the construction of a medical office building, there will be no adverse impact on any ancillary or support services offered.

GR Criterion 14 – Construction Projects

According to the applicant, all spatial allocations related to this project shall conform to state or other applicable standards. The application contained a floor plan and a certified cost estimate of an architect licensed to do business in Mississippi. The construction cost per square foot for this project is \$169.08.

GR Criterion 16 – Quality of Care

Riley Hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure of \$11,500,900 is allocated as follows:

			Percent
a.	Construction Cost -- New	\$ 9,537,400	82.93
b.	Construction Cost -- Renovation	0	0
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	0	0
f.	Land Cost	0	0
g.	Site preparation Cost	570,000	4.96
h.	Fees (Architectural, Consultant, etc.)	599,900	5.22
i.	Contingency Reserve	482,317	4.19
j.	Capitalized Interest	311,283	2.70
k.	Other Cost	0	0
l.	Total Proposed Capital Expenditure	<u>\$11,500,900</u>	<u>100.00</u>

The total square footage of new construction is 68,020 square feet. The cost per square foot is \$169.08, which exceeds the high end of the \$89.00 to \$135.00 per square foot range for medical office construction costs in the 2005 Means Construction Cost Data book. However, the cost is comparable to the cost of other recent medical office building projects approved by the Mississippi Department of Health, such as \$173.72 for River Oaks Hospital, (HG-CB-1203-077), and \$175.25 for Jeff Anderson Regional Medical Center, (HG-RC-0604-027).

B. Method of Financing

The medical office building construction project will be financed through a commercial loan in the amount of \$9,975,000 and the remainder through hospital equity. All debts associated with this project shall be retired through the use of rental collections or proceeds.

C. Effects on Operating Cost

The application projects the following expense and revenue results from operation for the first three years following completion of the project:

Riley Hospital Medical Office Building Three Year Projected Operation Statement			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Revenue:			
Lease Payments	\$ 1,017,749	\$ 1,017,749	\$ 1,017,749
Expenses:			
Interest	583,235	575,831	567,971
Depreciation	<u>328,571</u>	<u>328,571</u>	<u>328,571</u>
Total Expenses	911,806	904,402	896,542
Excess of Revenues Over Expenses	<u>\$ 105,943</u>	<u>\$ 113,347</u>	<u>\$ 121,207</u>

D. Cost to Medicaid

The completion of the medical office building construction project will not create an expense to Medicaid.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. The Division of Medicaid takes no position of this application.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, and expansion projects as contained in the *FY 2005 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised 2000; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted on behalf of Riley Hospital for the construction of a medical office building.